

Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended .

Unit Name	Metro Transit System	County	KALAMAZOO	Type	OTHER	MuniCode	39-7-516
Opinion Date	7/31/2008	Audit Submitted	8/01/08	Fiscal Year	2007		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?		
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?		
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?		
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?		
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?		
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?		
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?		
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?		
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?		
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)		
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)		
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?		
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?	14. If not, what type of opinion is it?	NA
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?		
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?		
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?		
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?	<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$0.00
General Fund Expenditure:	\$0.00
Major Fund Deficit Amount:	\$0.00

General Fund Balance:	\$0.00
Governmental Activities Long-Term Debt (see instructions):	\$0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Stephen	Last Name	Blann	Ten Digit License Number	1101024801				
CPA Street Address	675 Robinson Rd	City	Jackson	State	MI	Zip Code	49203	Telephone	(517) 787-6503
CPA Firm Name	Rehmann Robson	Unit's Street Address	241 W South St	City	Kalamazoo	Zip Code	49007		

CITY OF KALAMAZOO, MICHIGAN

METRO TRANSIT SYSTEM

**Financial Statements
And
Supplementary Information**

**For the Years Ended
December 31, 2007 and 2006**



REHMANN ROBSON

Certified Public Accountants

CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

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CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

July 31, 2008

Honorable Mayor and Members of the
City Commission and the
Kalamazoo Transit Authority
Kalamazoo, Michigan

We have audited the accompanying basic financial statements of the ***City of Kalamazoo, Michigan, Metro Transit System, a component unit of the City of Kalamazoo***, as of December 31, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Kalamazoo, Michigan, Metro Transit System as of December 31, 2007 and 2006, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2008, on our consideration of the City of Kalamazoo, Michigan, Metro Transit System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The System has not presented Management's Discussion and Analysis for the Metro Transit System as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of the financial statements.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information for the year ended December 31, 2007 listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the City of Kalamazoo, Michigan, Metro Transit System. The information on pages 14 through 25 and 27 through 28 has been subjected to the procedures applied in the audit of the 2007 financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2007 financial statements taken as a whole. The information on pages 26 and 29 through 35 has not been subjected to the procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

FINANCIAL STATEMENTS

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Statements of Net Assets
December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Current assets		
Cash and cash equivalents	\$ 4,632,572	\$ 3,538,420
Receivables:		
Taxes	385,099	360,686
Customers	126,727	47,116
Due from other governments	581,310	380,159
Due from the City of Kalamazoo	364	7,753
Prepaid expenses	100	2,836
Inventories	316,831	311,499
	<u>6,043,003</u>	<u>4,648,469</u>
Total current assets		
	<u>6,043,003</u>	<u>4,648,469</u>
Non-current assets		
Restricted investments	1,132,909	1,132,909
Capital assets not being depreciated	2,012,631	2,027,631
Capital assets being depreciated, net	16,936,476	17,457,669
	<u>20,082,016</u>	<u>20,618,209</u>
Total non-current assets		
	<u>20,082,016</u>	<u>20,618,209</u>
Total assets	<u>26,125,019</u>	<u>25,266,678</u>
Current liabilities		
Accounts payable	502,176	639,770
Accrued and other liabilities	-	111,763
Due to the City of Kalamazoo	308,471	296,350
Unearned revenue	1,017,521	1,138,304
Current portion of compensated absences	22,415	21,257
	<u>1,850,583</u>	<u>2,207,444</u>
Total current liabilities		
	<u>1,850,583</u>	<u>2,207,444</u>
Long-term liabilities		
Compensated absences, net of current portion	156,907	148,800
	<u>156,907</u>	<u>148,800</u>
Total liabilities	<u>2,007,490</u>	<u>2,356,244</u>
Net assets		
Invested in capital assets	18,949,107	19,485,300
Unrestricted	5,168,422	3,425,134
	<u>24,117,529</u>	<u>22,910,434</u>
Total net assets	<u>\$ 24,117,529</u>	<u>\$ 22,910,434</u>

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Statements of Revenue, Expenses, and
Changes in Fund Net Assets
For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Operating revenue		
Passenger fares	\$ 2,140,595	\$ 2,002,349
Charter service	13,140	4,327
Special transit service	46,686	28,766
Other operating revenue	<u>235,134</u>	<u>64,693</u>
Total operating revenue	<u>2,435,555</u>	<u>2,100,135</u>
Operating expenses		
Operations	7,947,344	7,495,263
Maintenance	1,987,422	2,165,916
General administration	<u>3,378,538</u>	<u>3,571,733</u>
Total operating expenses	<u>13,313,304</u>	<u>13,232,912</u>
Operating loss	<u>(10,877,749)</u>	<u>(11,132,777)</u>
Non-operating revenue		
Tax levy	1,630,136	1,589,909
Federal grants	1,244,633	1,863,462
State grants	5,232,232	4,644,253
Subsidies from other governments	2,918,581	2,370,462
Investment income	244,375	143,086
Gain/(loss) on sale of capital assets	<u>39</u>	<u>(75,011)</u>
Total non-operating revenue	<u>11,269,996</u>	<u>10,536,161</u>
Gain/(loss) before capital contributions	<u>392,247</u>	<u>(596,616)</u>
Capital contributions		
Federal grants	557,845	2,195,478
State grants	257,003	1,248,382
Local sources	<u>-</u>	<u>5,000</u>
Total capital contributions	<u>814,848</u>	<u>3,448,860</u>
Change in net assets	1,207,095	2,852,244
Net assets, beginning of year	<u>22,910,434</u>	<u>20,058,190</u>
Net assets, end of year	<u><u>\$ 24,117,529</u></u>	<u><u>\$ 22,910,434</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Statements of Cash Flows
For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities		
Cash received from customers	\$ 2,016,986	\$ 4,081,439
Cash payments to suppliers for goods and services	(8,711,794)	(9,488,613)
Cash payments to employees for services	(3,481,036)	(3,564,026)
	<u>(10,175,844)</u>	<u>(8,971,200)</u>
Cash flows from non-capital financing activities		
Tax levy proceeds	1,630,136	1,589,909
Proceeds from grants used for operations and maintenance	6,476,865	6,507,715
Subsidies from other governments	2,918,581	2,370,462
	<u>11,025,582</u>	<u>10,468,086</u>
Cash flows from capital and related financing activities		
Purchase of property and equipment	(814,848)	(3,573,679)
Proceeds from grants used for capital acquisitions	814,848	3,448,860
Proceeds from the sale of capital assets	39	6,569
	<u>39</u>	<u>(118,250)</u>
Cash flows from investing activities		
Investment income	244,375	143,086
Purchase of investments	-	(1,132,909)
Sale of investments	-	1,151,263
	<u>244,375</u>	<u>161,440</u>
Net cash provided by investing activities	<u>244,375</u>	<u>161,440</u>
Net increase in cash and cash equivalents	1,094,152	1,540,076
Cash and cash equivalents, beginning of year	<u>3,538,420</u>	<u>1,998,334</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,632,572</u></u>	<u><u>\$ 3,538,420</u></u>

continued...

Non-cash transactions:

There were no significant non-cash transactions during the year.

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Statement of Cash Flows (Concluded)
For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (10,877,749)	\$ (11,132,777)
Adjustments to reconcile operating loss to net cash from operating activities:		
Depreciation	1,351,041	1,229,321
Changes in assets and liabilities:		
Receivables	(104,024)	82,118
Due from other governments	(201,151)	1,221,809
Due from City of Kalamazoo	7,389	8,725
Prepaid expenses	2,736	(2,836)
Inventories	(5,332)	17,729
Accounts payable	(137,594)	(1,096,942)
Accrued and other liabilities	(111,763)	(16,752)
Due to City of Kalamazoo	12,121	115,747
Due to other governments	-	(84,335)
Unearned revenue	(120,783)	668,652
Tax tribunal payable	-	(6,118)
Compensated absences payable	9,265	24,459
Net cash used by operating activities	<u><u>\$ (10,175,844)</u></u>	<u><u>\$ (8,971,200)</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

Notes To Financial Statements

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kalamazoo, Michigan, Metro Transit System (the “System” or “Authority”), is a discretely presented component unit of the City of Kalamazoo. The City acquired these operations on September 23, 1966 pursuant to the provisions set forth in Section 157A of the City Charter. The Authority manages the operations of the system pursuant to an agreement with the City of Kalamazoo. The System provides public transportation services to users in the City of Kalamazoo and portions of the surrounding area.

The accounting policies of the System conform to generally accepted accounting principles as applicable to enterprise funds of governmental units. A summary of significant accounting policies is as follows:

Basis of Accounting - The accounts of the System are organized on the basis of an enterprise fund. This Fund accounts for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The System is reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The System has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the System are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

Notes To Financial Statements

Cash Equivalents - All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents.

Investments - Investments are recorded at fair value.

Inventories - Inventories consist of repair parts, supplies and fuel and are valued at cost, on a first-in, first-out basis, which approximates fair value.

Capital Assets - Capital assets are defined by the government as assets with an individual cost of more than \$5,000 and an estimated useful life in excess of two years. Property and equipment are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation on such capital assets is recorded on a straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred. Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	5-50
Buildings and building improvements	50
Vehicles	7-10
Office equipment	6-10
Machinery and equipment	3-10

Prepaid Items - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Property Taxes - The System is permitted by P.A. 55 of the Public Acts of 1963, as amended, to levy property taxes to assist in its operations. Property taxes attach as an enforceable lien on property as of December 1 and are levied on July 1. The City of Kalamazoo bills and collects taxes for the System. During both 2007 and 2006, the System levied a voted millage of \$1.0 and \$1,000 of assessed valuation.

Compensated Absences - Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulated sick leave benefits that it is estimated will be taken as "termination leave" prior to retirement.

Unearned Revenue - Certain receipts from other entities reflect revenue applicable to future accounting periods and are recorded as unearned revenue.

CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

Notes To Financial Statements

2. DEPOSITS AND INVESTMENTS

The System's deposits and investments are included on the statements of net assets under the following classifications:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 4,632,572	\$ 3,538,420
Restricted investments	<u>1,132,909</u>	<u>1,132,909</u>
Total	<u>\$ 5,765,481</u>	<u>\$ 4,671,329</u>

The above amounts are classified in the following categories:

	<u>2007</u>	<u>2006</u>
Cash on hand	\$ 400	\$ 400
Bank deposits (checking accounts, savings accounts and certificates of deposit)	889,915	2,703,729
Investments:		
U.S. agencies	2,511,485	981,900
Commercial paper	<u>2,363,681</u>	<u>985,300</u>
Total	<u>\$ 5,765,481</u>	<u>\$ 4,671,329</u>

Custodial Credit Risk - Deposits. For deposits, custodial credit risk is the risk, that in the event of a bank failure, the System's deposits may not be returned to the government. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$703,400 and \$1,651,338 at December 31, 2007 and 2006, respectively. Federal depository insurance is applied to the City of Kalamazoo's deposits as a whole. Therefore, the portion of the System's deposit covered by FDIC is not determinable.

The System's banking and investment policy does not specifically address this risk, although the System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

Notes To Financial Statements

Custodial Credit Risk - Investments. As of December 31, 2007 and 2006, the System's investments were comprised of U.S. agencies and bankers acceptances and solely U.S. agencies, respectively. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment. As of December 31, 2007 and 2006, none of the System's investments were exposed to risk since the securities are held in the System's name by the counterparty.

Credit Risk. As of December 31, 2007 and 2006, all of the System's investments in securities of U.S. agencies were rated AAA by Standard & Poor's. All of the System's investments comply with its policy regarding the types of investments it may hold.

Concentration of Credit Risk. At December 31, 2007 and 2006, the investment portfolio was concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Portfolio</u>	
		<u>2007</u>	<u>2006</u>
U.S. agencies	Federal Home Loan Mortgage Association	51.5%	49.9%
Bankers acceptance	JP Morgan Chase	48.5%	50.1%

Among other provisions, the System's investment policy permits the entire portfolio to be invested in obligations of U.S. agencies with the limitation that no more than 35% may be placed with a single institution. However, the investments of the System are pooled with those of the City of Kalamazoo's and the concentration is determined for the entire pool, not the System individually.

Interest Rate Risk. As of December 31, 2007, \$3,865,556 of U.S. agencies and commercial paper securities were due within one year; the remaining balance of \$1,009,610 was due within two years. The System's policy provides that the maximum weighted average maturity will be limited to 18 months. As of December 31, 2006, all of the System's securities were due within one year.

CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

Notes To Financial Statements

3. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

	Balance 1/1/2007	Increases	Decreases	Balance 12/31/2007
Capital assets not being depreciated:				
Land	\$ 2,012,631	\$ -	\$ -	\$ 2,012,631
Construction in progress	15,000	-	(15,000)	-
	<u>2,027,631</u>	<u>-</u>	<u>(15,000)</u>	<u>2,012,631</u>
Capital assets being depreciated:				
Building & improvements	15,727,447	66,511	(59,970)	15,733,988
Land improvements	334,641	-	-	334,641
Machinery and equipment	1,432,727	84,617	(73,655)	1,443,689
Vehicles	10,741,287	678,720	(1,000)	11,419,007
Total capital assets being depreciated	<u>28,236,102</u>	<u>829,848</u>	<u>(134,625)</u>	<u>28,931,325</u>
Accumulated depreciation:				
Building & improvements	(2,987,973)	(418,829)	59,970	(3,346,832)
Land improvements	(275,757)	(8,239)	-	(283,996)
Machinery and equipment	(1,099,225)	(91,339)	73,655	(1,116,909)
Vehicles	(6,415,478)	(832,634)	1,000	(7,247,112)
Total accumulated depreciation	<u>(10,778,433)</u>	<u>(1,351,041)</u>	<u>134,625</u>	<u>(11,994,849)</u>
Total capital assets being depreciated, net	<u>17,457,669</u>	<u>(521,193)</u>	<u>-</u>	<u>16,936,476</u>
Total capital assets, net	<u><u>\$ 19,485,300</u></u>	<u><u>\$ (521,193)</u></u>	<u><u>\$ (15,000)</u></u>	<u><u>\$ 18,949,107</u></u>

CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

Notes To Financial Statements

Capital asset activity for the year ended December 31, 2006 was as follows:

	Balance 01/01/2007	Increases	Decreases	Balance 12/31/2007
Capital assets not being depreciated:				
Land	\$ 2,012,631	\$ -	\$ -	\$ 2,012,631
Construction in progress	8,314,721	15,000	(8,314,721)	15,000
	<u>10,327,352</u>	<u>15,000</u>	<u>(8,314,721)</u>	<u>2,027,631</u>
Capital assets being depreciated:				
Building & improvements	5,216,930	10,510,517	-	15,727,447
Land improvements	321,004	13,637	-	334,641
Machinery and equipment	1,345,511	87,216	-	1,432,727
Vehicles	10,352,699	1,262,030	(873,442)	10,741,287
Total capital assets being depreciated	<u>17,236,144</u>	<u>11,873,400</u>	<u>(873,442)</u>	<u>28,236,102</u>
Accumulated depreciation:				
Building & improvements	(2,700,716)	(287,257)	-	(2,987,973)
Land improvements	(267,860)	(7,897)	-	(275,757)
Machinery and equipment	(1,001,489)	(97,736)	-	(1,099,225)
Vehicles	(6,370,909)	(836,431)	791,862	(6,415,478)
Total accumulated depreciation	<u>(10,340,974)</u>	<u>(1,229,321)</u>	<u>791,862</u>	<u>(10,778,433)</u>
Total capital assets being depreciated, net	<u>6,895,170</u>	<u>10,644,079</u>	<u>(81,580)</u>	<u>17,457,669</u>
Total capital assets, net	<u><u>\$ 17,222,522</u></u>	<u><u>\$ 10,659,079</u></u>	<u><u>\$ (8,396,301)</u></u>	<u><u>\$ 19,485,300</u></u>

4. RESTRICTED ASSETS

Restricted assets represent investments that have been segregated for equipment and contingency reserves due to Transit Authority Board action. Net assets have not been restricted for these assets since this is an internal only designation.

CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

Notes To Financial Statements

5. LONG-TERM DEBT

A schedule of changes in long term debt for the year ended December 31, 2007 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 170,057	\$ 34,265	\$ 25,000	\$ 179,322	\$ 22,415

A schedule of changes in long term debt for the year ended December 31, 2006 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 145,598	\$ 170,057	\$ 145,598	\$ 170,057	\$ 21,257
Tax Tribunal Payable	6,118	-	6,118	-	-
Total	\$ 151,716	\$ 170,057	\$ 151,716	\$ 170,057	\$ 21,257

6. DEFINED BENEFIT PENSION PLAN

The Transit System contributes to the City of Kalamazoo Employees' Retirement System, which is the administrator of a single-employer public employees retirement system that covers all employees of the City. The City of Kalamazoo Employees' Retirement System report has been issued under separate cover.

7. RISK MANAGEMENT

The System is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees.

The System participates in the City of Kalamazoo's risk management program for all of these exposures. The City's risk management program is primarily a self-insured program with reinsurance for amounts in excess of aggregate loss funds. The City estimates the liability for unpaid claims (including claims incurred but not reported) and allocates the cost to all appropriate entities and funds. There is no further exposure to the System that would require a liability to be recorded in the financial statements.

CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

Notes To Financial Statements

8. CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by those agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the System. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the System expects such amounts, if any, to be immaterial.

9. FEDERAL FUNDS

The federal funds received by the System are reported upon as required by the Single Audit Act Amendments of 1996 and Office of Management and Budget Circular A-133 in the City's Single Audit Act Compliance Report, which is a separately issued report.

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SUPPLEMENTARY INFORMATION

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Schedule of Operating Revenue, Non-Operating Revenue and Capital Contributions
For the Year Ended December 31, 2007
(With Comparative Amounts for the Year Ended December 31, 2006)

	1/1/07 through 9/30/07	10/1/07 through 12/31/07	Totals	
			2007	2006
Operating revenue				
Passenger fares	\$ 1,549,251	\$ 591,344	\$ 2,140,595	\$ 2,002,349
Charter service	13,140	-	13,140	4,327
Special transit service	-	46,686	46,686	28,766
Other operating revenue	209,870	25,264	235,134	64,693
Total operating revenue	\$ 1,772,261	\$ 663,294	\$ 2,435,555	\$ 2,100,135
Non-operating revenue				
Tax levy	\$ 1,630,136	\$ -	\$ 1,630,136	\$ 1,589,909
Federal grants:				
Operating grant - Section 5307	1,977,067	-	1,977,067	1,611,684
Operating grant - Section 5311	230,795	125,752	356,547	311,366
Operating grant - Section 5316	25,000	-	25,000	-
Capital grants	(1,067,999)	(45,982)	(1,113,981)	251,778
State of Michigan grants:				
Formula operating assistance	3,164,163	815,666	3,979,829	4,011,396
Capital grants	(240,167)	1,437,636	1,197,469	161,086
Small bus inventory tax reimbursement	-	-	-	25,520
Other	79,934	(25,000)	54,934	134,885
Subsidies from other governments:				
City of Parchment	-	-	-	8,297
Comstock Township	-	-	-	53,392
Kalamazoo Township	-	-	-	100,041
Oshtemo Township	-	-	-	18,006
Kalamazoo Valley Community College	-	-	-	16,469
Western Michigan University	931,304	484,777	1,416,081	1,938,951
City of Portage	-	-	-	122,806
Kalamazoo County	1,502,500	-	1,502,500	112,500
Investment income	68,369	176,006	244,375	143,086
Gain/(loss) on sale of capital assets	39	-	39	(75,011)
Total non-operating revenue	\$ 8,301,141	\$ 2,968,855	\$ 11,269,996	\$ 10,536,161
Capital contributions				
Federal grants	\$ 10,518	\$ 547,327	557,845	\$ 2,195,478
State grants	2,630	254,373	257,003	1,248,382
Local	-	-	-	5,000
Total capital contributions	\$ 13,148	\$ 801,700	\$ 814,848	\$ 3,448,860

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Schedule of Operating Revenue, Non-Operating Revenue and Capital Contributions
For the Year Ended September 30, 2007

	10/1/2006 through 12/31/2006	1/1/2007 through 9/30/2007	Total
Operating revenue			
Passenger fares	\$ 572,867	\$ 1,549,251	\$ 2,122,118
Charter service	2,001	13,140	15,141
Special transit service	28,766	-	28,766
Other operating revenue	13,908	209,870	223,778
Total operating revenue	\$ 617,542	\$ 1,772,261	\$ 2,389,803
Non-operating revenue			
Tax levy	\$ 3,670	\$ 1,630,136	\$ 1,633,806
Federal grants:			
Operating grant - Section 5307	-	1,977,067	1,977,067
Operating grant - Section 5311	84,862	230,795	315,657
Operating grant - Section 5316	-	25,000	25,000
Capital grants	750	(1,067,999)	(1,067,249)
State of Michigan grants:			
Formula operating assistance	1,140,763	3,164,163	4,304,926
Capital grants	1,337	(240,167)	(238,830)
Small bus inventory tax reimbursement	25,520	-	25,520
Other	119,805	79,934	199,739
Subsidies from other governments:			
City of Parchment	2,074	-	2,074
Comstock Township	13,348	-	13,348
Kalamazoo Township	25,010	-	25,010
Oshtemo Township	4,502	-	4,502
Kalamazoo Valley Community College	4,117	-	4,117
Western Michigan University	878,428	931,304	1,809,732
City of Portage	30,701	-	30,701
Kalamazoo County	-	1,502,500	1,502,500
Investment income	107,333	68,369	175,702
Gain on sale of capital assets	-	39	39
Total non-operating revenue	\$ 2,442,220	\$ 8,301,141	\$ 10,743,361
Capital contributions			
Federal grants	\$ 126,536	\$ 10,518	137,054
State grants	182,318	2,630	184,948
Total capital contributions	\$ 308,854	\$ 13,148	\$ 322,002

CITY OF KALAMAZOO, MICHIGAN

Metro Transit System

**Schedule of Federal Grant Funding
For the Year Ended December 31, 2007**

Federal/Pass-through Grantor Program Title/Program Number		CFDA #	Award Amount	(Accrued) Deferred Revenue at 12/31/2006	Federal Receipts	Federal Expenditures	(Accrued) Deferred Revenue at 12/31/2007	Federal Revenue Recognized
U.S. Department of Transportation								
Federal Transit Administration - Capital, Planning, and Operating Assistance:								
Capital 2003	MI-90-X404	20.507	858,655	\$ -	\$ 10,518	\$ 10,518	\$ -	\$ 10,518
Capital 2004	MI-90-X431	20.507	503,325	(6,096)	6,096	15,016	(15,016)	15,016
Capital 2005	MI-90-X455	20.507	1,632,732	(11,650)	197,386	202,642	(16,906)	202,642
Capital 2006	MI-03-0216	20.507	2,993,076	(80,813)	(1,054,961)	(1,124,499)	(11,275)	(1,124,499)
Capital 2007	MI-90-0495	20.507	N/A	(750)	80,949	157,869	(77,670)	157,869
Capital 2007	MI-04-0014	20.507	N/A	-	161,518	161,518	-	161,518
Capital 2007	MI-90-X520	20.507	N/A	-	17,600	20,800	(3,200)	20,800
Operating	n/a	20.507	1,977,067	-	1,977,067	1,977,067	-	1,977,067
Nonurbanized Area Formula Program:								
Section 5311 FY 2004	G02-0055/8	20.509	N/A	(272)	-	-	(272)	-
Section 5311 FY 2005	G02-0055/13	20.509	N/A	17,264	2,979	-	20,243	-
Section 5311 FY 2006	G02-0055/20	20.509	N/A	53,751	24,123	-	77,874	-
Section 5311 FY 2007	G07-0259/3	20.509	N/A	(84,862)	291,810	233,748	(26,800)	233,748
Section 5311 FY 2008	G07-0239/7	20.509	N/A	-	-	122,799	(122,799)	122,799
Job Access Reverse Commute:								
JARC	G07-0239/2	20.516	25,000	-	25,000	25,000	-	25,000
Total federal financial assistance				<u>\$ (113,428)</u>	<u>\$ 1,740,085</u>	<u>\$ 1,802,478</u>	<u>\$ (175,821)</u>	<u>\$ 1,802,478 (1)</u>

(1) Federal revenue is recorded in the Statement of Revenue, Expenses and Changes in Fund Net Assets as follows:

Non-operating revenue	\$ 1,244,633
Capital contributions	<u>557,845</u>
	<u>\$ 1,802,478</u>

CITY OF KALAMAZOO, MICHIGAN

Metro Transit System

Schedule of State Grant Funding

For the Year Ended December 31, 2007

State/Pass-through Grantor Program Title/Program Number		Award Amount	(Accrued) Deferred Revenue at 12/31/2006	State Receipts	State Expenditures	Operating Assistance Adjustments	(Accrued) Deferred Revenue at 12/31/2007	State Revenue Recognized
Michigan Department of Transportation								
Capital, Planning, and Operating Assistance:								
Capital 2003	G03-0055/Z4	\$ 209,663	\$ -	\$ -	\$ 5,200	\$ -	\$ (5,200)	\$ 5,200
State Share	G02-0055/Z9	125,831	(1,524)	1,523	3,754	-	(3,755)	3,754
State Share	G02-0055/Z11	-	(61,608)	1,545,496	1,483,851	-	37	1,483,851
State Share	G02-0055/Z19	-	(20,204)	(266,837)	(281,122)	-	(5,919)	(281,122)
State Share	MDOT-Z16	-	-	1,964	1,964	-	-	1,964
State Share	MDOT-Z17	-	(1,531)	1,531	77,390	-	(77,390)	77,390
State Share	MI-90-0455	-	-	-	50,661	-	(50,661)	50,661
State Share	G02-0055/Z22	-	-	-	34,895	-	(34,895)	34,895
State Share	G02-0055/Z23	-	-	16,923	40,379	-	(23,456)	40,379
State Share	MDOT0100016	-	-	-	37,500	-	(37,500)	37,500
Specialized Services	2007-0239/z3	N/A	(11,661)	44,586	32,925	-	-	32,925
Ridesharing		N/A	(8,751)	23,332	26,597	-	(12,016)	26,597
Operating FY 2002		N/A	(56,580)	-	-	-	(56,580)	-
Operating FY 2003		N/A	30,329	-	-	-	30,329	-
Operating FY 2004		N/A	393,015	(155,007)	-	-	238,008	-
Operating FY 2005		N/A	114,057	(14,034)	-	-	100,023	-
Operating FY 2006		N/A	259,775	(161,085)	-	-	98,690	-
Operating FY 2007		N/A	(33,856)	3,320,729	2,875,440	-	411,433	2,875,440
Operating FY 2008		N/A	-	1,085,751	1,044,867	-	40,884	1,044,867
Total state financial assistance			<u>\$ 601,461</u>	<u>\$ 5,444,872</u>	<u>\$ 5,434,301</u>	<u>\$ -</u>	<u>\$ 612,032</u>	<u>\$ 5,434,301 (1)</u>

(1) State revenue is recorded in the Statement of Revenue, Expenses and Changes in Fund Net Assets as follows:

Non-operating revenue	\$ 5,232,232
Capital contributions	257,003
Less: other state grants	<u>(54,934)</u>
	<u>\$ 5,434,301</u>

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Schedule of Federal and State Awards
Operating Revenue Only
For the Years Ended December 31, 2007 and September 30, 2007

Schedule 2A - for the year ended December 31, 2007	01/01/07 to 09/30/07	10/01/07 to 12/31/07	Total
Michigan Department of Transportation:			
Local Bus Operating (Act 51)	\$ 3,320,729	\$ 599,578	\$ 3,920,307
Federal Transit Administration:			
Section 5307 - operating	1,977,067	-	1,977,067
Section 5311 - operating	230,795	125,752	356,547
Section 5316 - operating	25,000	-	25,000
Total	\$ 5,553,591	\$ 725,330	\$ 6,278,921

Schedule 2B - based on a September 30, 2007 year end	10/01/06 to 12/31/06	01/01/07 to 09/30/07	Total
Michigan Department of Transportation:			
Local Bus Operating (Act 51)	\$ 1,140,763	\$ 3,320,729	\$ 4,461,492
Federal Transit Administration -			
Section 5307 - operating	-	1,977,067	1,977,067
Section 5311 - operating	84,862	230,795	315,657
Section 5316 - operating	-	25,000	25,000
Total	\$ 1,225,625	\$ 5,553,591	\$ 6,779,216

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Schedule of Operating Expenses
For the Year Ended December 31, 2007

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total</u>
Salaries and wages	\$ 3,127,034	\$ 816,401	\$ 444,353	\$ 4,387,788
Fringe benefits	1,397,067	396,632	396,377	2,190,076
Materials and supplies:				
Fuel and lubricants	935,297	3,166	2,225	940,688
Repair parts	-	555,202	-	555,202
Tires and tubes	-	51,781	-	51,781
Other	97,809	11,253	58,353	167,415
Purchased transportation services	783,722	-	-	783,722
Advertising	-	-	36,035	36,035
Utilities	99,021	-	212,791	311,812
Insurance expense	213,858	-	62,816	276,674
Cleaning and maintenance	40,598	104,984	59,015	204,597
Accounting and administrative fees	-	-	556,911	556,911
Computer services	-	-	72,365	72,365
Professional and contractual services	1,248,201	47,423	19,918	1,315,542
Membership and dues	-	-	32,976	32,976
Small equipment/furnishings	-	-	72,970	72,970
Depreciation:				
Grant assets	-	-	1,251,225	1,251,225
Other assets	-	-	99,816	99,816
Miscellaneous	4,737	580	392	5,709
Total operating expenses	\$ 7,947,344	\$ 1,987,422	\$ 3,378,538	\$ 13,313,304

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Schedule of Expenses by Contract and General Operations
For the Year Ended December 31, 2007

	<u>Capital Grants</u>	<u>Operations and Charter</u>	<u>Total</u>
Salaries and wages	\$ -	\$ 4,387,788	\$ 4,387,788
Fringe benefits	-	2,190,076	2,190,076
Materials and supplies:			
Fuel and lubricants	-	940,688	940,688
Repair parts	13,148	542,054	555,202
Tires and tubes	-	51,781	51,781
Other	-	167,415	167,415
Purchased transportation services	-	783,722	783,722
Advertising	-	36,035	36,035
Utilities	-	311,812	311,812
Insurance expense	-	276,674	276,674
Cleaning and maintenance	-	204,597	204,597
Accounting and administrative fees	-	556,911	556,911
Computer services	-	72,365	72,365
Professional and contractual services	-	1,315,542	1,315,542
Membership and dues	-	32,976	32,976
Small equipment/furnishings	72,970	-	72,970
Depreciation:			
Grant assets	-	1,251,225	1,251,225
Other assets	-	99,816	99,816
Miscellaneous	-	5,709	5,709
Total operating expenses	<u>\$ 86,118</u>	<u>\$ 13,227,186</u>	<u>\$ 13,313,304</u>

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Net Eligible Cost Computations of General Operations
For the Years Ended December 31, 2007 and 2006

	1/1/2007 through 9/30/2007	10/1/2007 through 12/31/2007	Totals	
			2007	2006
Expenses				
Salaries and wages	\$ 3,147,992	\$ 1,239,796	\$ 4,387,788	\$ 4,335,290
Fringe benefits	1,584,143	605,933	2,190,076	2,018,950
Materials and supplies:				
Fuel and lubricants	660,373	280,315	940,688	860,526
Repair	421,322	133,880	555,202	460,466
Tires and tubes	38,835	12,946	51,781	57,535
Other	149,683	17,732	167,415	161,693
Purchased transportation services	575,169	208,553	783,722	711,661
Advertising	30,995	5,040	36,035	42,096
Utilities	230,951	80,861	311,812	269,970
Insurance expense	245,103	31,571	276,674	520,718
Cleaning and maintenance	150,212	54,385	204,597	204,697
Accounting and administrative fees	417,672	139,239	556,911	535,475
Computer services	54,270	18,095	72,365	70,257
Professional and contractual services	964,752	350,790	1,315,542	1,344,264
Membership and dues	32,976	-	32,976	31,768
Small equipment/furnishings	27,968	45,002	72,970	373,433
Depreciation:				
Grant assets	938,419	312,806	1,251,225	1,064,842
Other assets	-	99,816	99,816	164,479
Miscellaneous	3,810	1,899	5,709	4,792
Total expenses	<u>\$ 9,674,645</u>	<u>\$ 3,638,659</u>	<u>\$ 13,313,304</u>	<u>\$ 13,232,912</u>

Continued...

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Net Eligible Cost Computations of General Operations (Continued)
For the Grant Year Ended September 30, 2007

	10/1/2006 through 12/31/2006	1/1/2007 through 9/30/2007	Total
Expenses			
Salaries and wages	\$ 1,230,752	\$ 3,147,992	\$ 4,378,744
Fringe benefits	555,841	1,584,143	2,139,984
Materials and supplies:			
Fuel and lubricants	191,305	660,373	851,678
Repair	125,044	421,322	546,366
Tires and tubes	14,784	38,835	53,619
Other	67,368	149,683	217,051
Purchased transportation services	183,084	575,169	758,253
Advertising	10,094	30,995	41,089
Utilities	77,589	230,951	308,540
Insurance expense	309,820	245,103	554,923
Cleaning and maintenance	55,340	150,212	205,552
Accounting and administrative fees	133,868	417,672	551,540
Computer services	17,562	54,270	71,832
Professional and contractual services	342,536	964,752	1,307,288
Membership and dues	-	32,976	32,976
Small equipment/furnishings	3,597	27,968	31,565
Depreciation:			
Grant assets	266,210	938,419	1,204,629
Other assets	41,121	-	41,121
Miscellaneous	863	3,810	4,673
 Total expenses	 \$ 3,626,778	 \$ 9,674,645	 \$ 13,301,423

Continued...

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Net Eligible Cost Computations of General Operations (Concluded)
For the Grant Year Ended September 30, 2007

Schedule 5 - Operating Assistance Calculation for September 30, 2007	Urban	Nonurban
Total Expenses	\$ 11,311,474	\$ 1,989,949
Less ineligible expenses:		
Other ineligible State contracts	5,189	5,706
Other ineligible expenses	96,265	-
Ineligible percent of association dues	389	428
Ineligible charter expense	860	179
Other ineligible FSL	38,267	-
JARC	25,000	-
Specialized services	52,666	-
Depreciation	1,059,381	186,369
Total Ineligible Expenses Per R&E Manual	1,278,017	192,682
Total State Eligible Expenses	\$ 10,033,457	\$ 1,797,267
Eligible Expenses for State Reimbursement	\$ 10,033,457	\$ 1,797,267
x Reimbursement Percentage	30.6300%	36.1600%
State Operating Assistance	\$ 3,073,248	\$ 649,892
Total Federal Eligible Expenses		\$ 1,797,267
Less Additional Federal Ineligible Expenses Per A-87:		
Audit Costs		394
Eligible Expenses for Federal Reimbursement		1,796,873
x Reimbursement Percentage	-n/a-	16%
Federal Operating Assistance	\$ 1,977,067	\$ 287,500

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Urban Regular Service Revenue Report
For the Year Ended September 30, 2007

Code	Description	Line Haul	Demand	Total
401 :	Farebox Revenue			
40100	Passenger Fares	\$ 1,257,482	\$ 529,088	\$ 1,786,570
405 :	Charter Service			
40500	Charter Service	12,870	-	12,870
406 :	Local Revenue			
40615	Advertising	49,729	-	49,729
40620	Intercity Ticket Sales	49,768	-	49,768
407 :	NonTrans Revenues			
40720	Rental of Bldgs or Other Property	29,765	-	29,765
40725	Parking Lot Revenue	1,789	-	1,789
408 :	Local Revenue			
40800	Taxes Levied Directly for/by Transit Agency	1,633,806	-	1,633,806
409 :	Local Revenue			
40910	Local Operating Assistance	2,883,187	-	2,883,187
411 :	State Formula and Contracts			
41101	State Operating Assistance (30.63%)	3,573,089	-	3,573,089
41199	Other State Contracts and Reimbursements	171,377	-	171,377
413 :	Federal Contracts			
41302	Federal Section 5307	1,977,067	-	1,977,067
41399	Other FTA Contracts & Reimbursements	(930,195)	-	(930,195)
414 :	Other Revenue			
41400	Interest Income	149,347	-	149,347
Total revenues:				\$ 11,388,169

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Urban Regular Service Expense Report
For the Year Ended September 30, 2007

Code	Description	Operations	Maintenance	Gen. Admin.	Total
501 :	Labor				
50101	Operators' Salaries & Wages	\$ 2,191,070	\$ -	\$ -	\$ 2,191,070
50102	Other Salaries & Wages	88,895	669,516	444,677	1,203,088
50103	Dispatchers' Salaries & Wages	329,507	-	-	329,507
502 :	Fringe Benefits				
50200	Other Fringe Benefits	1,143,346	316,095	360,392	1,819,833
503 :	Services				
50302	Advertising Fees	-	-	34,942	34,942
50305	Audit Cost	-	-	2,232	2,232
50399	Other Services	88,120	123,286	1,602,988	1,814,394
504 :	Materials and Supplies				
50401	Fuel & Lubricants	719,879	2,535	1,849	724,263
50402	Tires and tubes	-	45,597	-	45,597
50499	Other Materials & Supplies	90,139	502,205	56,863	649,207
505 :	Utilities				
50500	Utilities	80,038	-	182,343	262,381
506 :	Insurance				
50603	Liability Insurance	418,510	-	-	418,510
50699	Other Insurance	-	-	53,394	53,394
508:	Purchased Trans Service				
50800	Purchased Trans Service	644,815	-	-	644,815
509 :	Misc Expenses				
50902	Travel, Meetings & Training	4,293	4,621	15,124	24,038
50903	Association Dues & Subscriptions	-	-	28,043	28,043
50909	Loss on Disposal of Assets	39	-	-	39
50999	Other Misc Expenses	-	-	6,740	6,740
513 :	Depreciation				
51300	Depreciation	-	-	1,059,381	1,059,381
550 :	Ineligible Expenses				
55004	Other Ineligible State Contracts	-	-	5,189	5,189
55007	Ineligible Depreciation	-	-	1,059,381	1,059,381
55008	Other Ineligible Expenses	-	-	96,265	96,265
55009	Ineligible Percent of Association Dues	-	-	389	389
55015	Ineligible Charter Expense	860	-	-	860
570 :	Ineligible Expenses				
51300	Other Ineligible FSL	-	-	38,267	38,267
580 :	Ineligible Expenses				
51300	Ineligible Loss on Disposal of Assets	39	-	-	39

Total expenses: 11,311,474

Total ineligible expenses: 1,200,390

Total eligible expenses: \$ 10,111,084

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Urban Regular Service Nonfinancial Report
For the Year Ended September 30, 2007
(Unaudited)

Public Service

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle Hours	109,290	15,215	-	124,505
611	Vehicle Miles	1,453,320	202,690	-	1,656,010
615	Passengers - Regular	2,139,138	226,389	-	2,365,527
616	Passengers - Elderly	28,284	3,242	-	31,526
617	Passengers - Persons w/ Disabilities	149,281	9,281	-	158,562
621	Total Line-Haul Passengers	2,228,962	236,873	-	2,465,835
622	Total Demand Response Passengers	87,741	2,039	-	89,780
625	Days Operated	536	53	-	589
Total expenses:					2,555,615

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Nonurban Regular Service Revenue Report
For the Year Ended September 30, 2007

Code	Description	Amount
401 :	Farebox Revenue	
40100	Passenger Fares	\$ 335,548
405 :	Charter Service	
40500	Charter Service	2,271
406 :	Local Revenue	
40699	Other Auxiliary Trans Revenues (Explain in comment field)	121,493
409 :	Local Revenue	
40910	Local Operating Assistance	508,797
411 :	State Formula and Contracts	
41101	State Operating Assistance (36.16%)	731,837
413 :	Federal Contracts	
41301	Federal Section 5311 (16%)	315,657
414 :	Other Revenue	
41400	Interest Income	26,355
Total revenues:		\$ 2,041,958

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Nonurban Regular Service Expense Report
For the Year Ended September 30, 2007

Code	Description	Operations	Maintenance	Gen. Admin.	Total
501 :	Labor				
50101	Operators' Salaries & Wages	\$ 386,659	\$ -	\$ -	\$ 386,659
50102	Other Salaries & Wages	15,687	118,150	65,317	199,154
50103	Dispatchers' Salaries & Wages	69,266	-	-	69,266
502 :	Fringe Benefits				
50200	Other Fringe Benefits	200,772	55,781	63,598	320,151
503 :	Services				
50302	Advertising Fees	-	-	6,147	6,147
50305	Audit Cost	-	-	394	394
50399	Other Services	15,551	21,756	281,885	319,192
504 :	Materials and Supplies				
50401	Fuel & Lubricants	126,642	447	326	127,415
50402	Tires and tubes	-	8,022	-	8,022
50499	Other Materials & Supplies	15,907	88,268	10,035	114,210
505 :	Utilities				
50500	Utilities	1,412	-	44,747	46,159
506 :	Insurance				
50603	Liability Insurance	40,990	-	-	40,990
50699	Other Insurance	32,607	-	9,422	42,029
508:	Purchased Trans Service				
50800	Purchased Trans Service	113,438	-	-	113,438
509 :	Misc Expenses				
50902	Travel, Meetings & Training	758	816	2,669	4,243
50903	Association Dues & Subscriptions	-	-	4,933	4,933
50999	Other Misc Expenses	-	-	1,178	1,178
513 :	Depreciation				
51300	Depreciation	-	-	186,369	186,369
550 :	Ineligible Expenses				
55004	Other Ineligible State Contracts	-	-	5,706	5,706
55007	Ineligible Depreciation	-	-	186,369	186,369
55009	Ineligible Percent of Association Dues	-	-	428	428
55015	Ineligible Charter Expense	179	-	-	179
Total expenses:					1,989,949
Total ineligible expenses:					192,682
Total eligible expenses:					\$ 1,797,267

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Nonurban Regular Service Nonfinancial Report
For the Year Ended September 30, 2007
(Unaudited)

Public Service

Code	Description	Weekday	Saturday	Sunday	Total
610	Vehicle Hours	22,573	3,172	-	25,745
611	Vehicle Miles	317,696	42,252	-	359,948
615	Passengers - Regular	446,064	47,193	-	493,257
616	Passengers - Elderly	4,211	807	-	5,018
617	Passengers - Persons w/ Disabilities	18,672	1,396	-	20,068
621	Total Line-Haul Passengers	456,350	48,971	-	505,321
622	Total Demand Response Passengers	12,597	425	-	13,022
625	Days Operated	253	53	-	306
Total expenses:					518,343

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Schedule of Vehicle Miles
For the Year Ended December 31, 2007
(Unaudited)

	Line-Haul			Charter Services	Demand Response
	Urban	Rural	Total		
First quarter					
January	108,472	20,090	128,562	-	470
February	102,369	18,545	120,914	-	449
March	111,214	20,863	132,077	-	368
Total first quarter	322,055	59,498	381,553	-	1,287
Second quarter					
April	115,190	18,364	133,554	-	261
May	110,827	18,364	129,191	-	-
June	108,335	19,588	127,923	9	-
Total second quarter	334,352	56,316	390,668	9	261
Third quarter					
July	104,285	18,835	123,120	-	-
August	110,472	20,342	130,814	-	-
September	103,614	17,830	121,444	-	517
Total third quarter	318,371	57,007	375,378	-	517
Fourth quarter					
October	116,697	20,058	136,755	11	706
November	108,008	18,573	126,581	-	721
December	108,049	18,573	126,622	300	363
Total fourth quarter	332,754	57,204	389,958	311	1,790
Total	1,307,532	230,025	1,537,557	320	3,855
Cost Distribution of Urban and Rural Miles	85.04%	14.96%			

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

Care A Van Services	Specialized Services	ADA Services	Total
40,950	2,017	16,082	188,081
34,643	-	14,643	170,649
45,003	2,838	15,283	195,569
<u>120,596</u>	<u>4,855</u>	<u>46,008</u>	<u>554,299</u>
43,337	2,420	17,451	197,023
47,475	3,291	17,836	197,793
43,911	2,704	16,329	190,876
<u>134,723</u>	<u>8,415</u>	<u>51,616</u>	<u>585,692</u>
41,825	2,067	17,556	184,568
41,091	2,809	17,523	192,237
45,173	1,850	17,779	186,763
<u>128,089</u>	<u>6,726</u>	<u>52,858</u>	<u>563,568</u>
47,041	2,222	21,236	207,971
38,086	3,107	19,619	188,114
30,541	1,778	17,787	177,391
<u>115,668</u>	<u>7,107</u>	<u>58,642</u>	<u>573,476</u>
<u>499,076</u>	<u>27,103</u>	<u>209,124</u>	<u>2,277,035</u>

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Schedule of Passenger Data
For the Year Ended December 31, 2007
(Unaudited)

	<u>Line Haul</u>	<u>Charter Services</u>	<u>Demand Response</u>	<u>Care A Van Services</u>	<u>Specialized Services</u>
First quarter					
January	279,291	-	82	6,620	933
February	266,924	-	72	5,606	1,013
March	<u>275,458</u>	<u>-</u>	<u>58</u>	<u>6,490</u>	<u>1,229</u>
Total first quarter	<u>821,673</u>	<u>-</u>	<u>212</u>	<u>18,716</u>	<u>3,175</u>
Second quarter					
April	260,928	-	44	5,629	1,196
May	203,998	32	-	6,237	1,453
June	<u>193,425</u>	<u>301</u>	<u>-</u>	<u>5,950</u>	<u>1,077</u>
Total second quarter	<u>658,351</u>	<u>333</u>	<u>44</u>	<u>17,816</u>	<u>3,726</u>
Third quarter					
July	173,850	-	-	5,822	920
August	197,448	180	-	5,522	1,332
September	<u>254,536</u>	<u>-</u>	<u>88</u>	<u>4,974</u>	<u>922</u>
Total third quarter	<u>625,834</u>	<u>180</u>	<u>88</u>	<u>16,318</u>	<u>3,174</u>
Fourth quarter					
October	299,350	557	116	6,214	1,240
November	261,548	-	116	5,459	1,201
December	<u>221,580</u>	<u>318</u>	<u>63</u>	<u>4,432</u>	<u>760</u>
Total fourth quarter	<u>782,478</u>	<u>875</u>	<u>295</u>	<u>16,105</u>	<u>3,201</u>
Total	<u><u>2,888,336</u></u>	<u><u>1,388</u></u>	<u><u>639</u></u>	<u><u>68,955</u></u>	<u><u>13,276</u></u>

The methodology used for compiling passenger data has been reviewed and found to be an adequate and reliable method for recording such information.

ADA Services	Total
3,079	290,005
2,834	276,449
3,296	286,531
9,209	852,985
3,338	271,135
2,903	214,623
3,205	203,958
9,446	689,716
3,267	183,859
3,243	207,725
3,093	263,613
9,603	655,197
3,935	311,412
3,633	271,957
3,290	230,443
10,858	813,812
39,116	3,011,710

CITY OF KALAMAZOO, MICHIGAN
Metro Transit System
Schedule of Vehicle Hours
For the Year Ended December 31, 2007
(Unaudited)

	<u>Line Haul</u>	<u>Charter Services</u>	<u>Demand Response</u>	<u>Care A Van Services</u>	<u>Specialized Services</u>
First quarter					
January	10,090	-	43	3,614	175
February	9,548	-	42	2,650	188
March	<u>10,212</u>	<u>-</u>	<u>36</u>	<u>3,460</u>	<u>221</u>
Total first quarter	<u>29,850</u>	<u>-</u>	<u>121</u>	<u>9,724</u>	<u>584</u>
Second quarter					
April	10,354	-	24	2,620	190
May	9,434	-	-	2,906	291
June	<u>9,453</u>	<u>9</u>	<u>-</u>	<u>2,640</u>	<u>230</u>
Total second quarter	<u>29,241</u>	<u>9</u>	<u>24</u>	<u>8,166</u>	<u>711</u>
Third quarter					
July	9,099	-	-	2,720	283
August	9,751	-	-	2,880	231
September	<u>9,216</u>	<u>-</u>	<u>47</u>	<u>2,400</u>	<u>166</u>
Total third quarter	<u>28,066</u>	<u>-</u>	<u>47</u>	<u>8,000</u>	<u>680</u>
Fourth quarter					
October	10,383	4	68	2,560	238
November	9,637	-	73	2,880	227
December	<u>9,610</u>	<u>37</u>	<u>33</u>	<u>3,128</u>	<u>181</u>
Total fourth quarter	<u>29,630</u>	<u>41</u>	<u>174</u>	<u>8,568</u>	<u>646</u>
Total	<u><u>116,787</u></u>	<u><u>50</u></u>	<u><u>366</u></u>	<u><u>34,458</u></u>	<u><u>2,621</u></u>

The methodology used for compiling vehicles hours and passenger data has been reviewed and found to be an adequate and reliable method for recording such

ADA Services	Total
2,667	16,589
2,439	14,867
2,828	16,757
<u>7,934</u>	<u>48,213</u>
2,851	16,039
2,903	15,534
2,712	15,044
<u>8,466</u>	<u>46,617</u>
2,819	14,921
2,422	15,284
2,476	14,305
<u>7,717</u>	<u>44,510</u>
2,542	15,795
2,561	15,378
2,402	15,391
<u>7,505</u>	<u>46,564</u>
<u>31,622</u>	<u>185,904</u>

CITY OF KALAMAZOO, MICHIGAN METRO TRANSIT SYSTEM

Notes To Supplementary Information

1. COST ALLOCATION PLANS

The Metro Transit System has three cost allocation plans where the methodology has been approved by the BPT. Those cost allocations are for urban and nonurban service, charter service, and specialized services. These cost allocation plans were adhered to in the preparation of the financial statements.

The Metro Transit System does not have a cost allocation plan to allocate expenses associated with the Job Access and Reverse Commute program (JARC). We calculated the expense to be \$25,000, which was subtracted out as ineligible on OAR Schedule 4E (Urban) and OAR Schedule 4E (Nonurban), respectively, and on Schedule 5.

2. EXPLANATION OF INELIGIBLE EXPENSES

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Audit costs are the only costs in which eligibility differs from the State R&E Manual and the Federal OMB Circular A-87. The Metro Transit did not incur expenses associated with 40615 Advertising revenue and, therefore, no expenses are subtracted out as ineligible on OAR Schedule 4E (Urban) or on Schedule 5.

3. NONFINANCIAL DATA

The methodology used for compiling mileage on the Schedule of Vehicle Miles is an adequate and reliable method for recording vehicle mileage. Because expenses associated with providing Charter service is based on vehicle hours, the methodology used for compiling hours is an adequate and reliable method.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

July 31, 2008

Honorable Mayor and Members of the
City Commission and the
Kalamazoo Transit Authority
Kalamazoo, Michigan

We have audited the financial statements of the *City of Kalamazoo, Michigan, Metro Transit System, a component unit of the City of Kalamazoo*, as of and for the year ended December 31, 2007, and have issued our report thereon dated June 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *City of Kalamazoo, Michigan, Metro Transit System's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *City of Kalamazoo, Michigan, Metro Transit System's* internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Kalamazoo, Michigan, Metro Transit System's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the organization, the Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive, flowing style.